Nos. 22456 and 22717

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

Royal Industries, a corporation,

Appellant,

vs.

St. Regis Paper Company, a corporation,

Appellee.

APPELLANT'S REPLY BRIEF.

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The appellee has filed an excellent brief had the judgment appealed from been rendered by the District Court after having heard all of the evidence. However, it fails to deal as penetratingly with the appellant's contention that, in granting the motion for summary judgment, the District Court necessarily decided certain questions of fact, which properly should have been decided only after the Court had heard all of the evidence. Appellant proposes to reply to appellee's points in the order they appear in the appellee's brief and will discuss questions of fact where appropriate in the setting of the reply to a particular point.

I.

The Parol Evidence Rule.

Each side has cited California cases dealing with the parol evidence rule containing language favorable to the party citing the particular cases. Seemingly the statements are irreconcilable. However, upon analysis and in the light of the facts of a given case, the decisions are not in as much disharmony as the quoted excerpts suggest. Moreover, they clearly indicate that the law of California on the parol evidence rule has evolved to the point today where the trial court should hear testimony about the alleged contemporaneous agreement before it can determine whether or not the parol evidence rule applies. At least, that is the holding of the most recent expression by the California Supreme Court on the matter, *Mastersen v. Sine* (February 1968) 68 A.C. 223.

Indeed the argument of St. Regis is itself persuasive proof that the applicability of the parol evidence rule in the case at bar could be determined only after the trial court heard all of the evidence and made a factual determination as to what was "natural" or "unnatural." For example, on page 15 of its brief appellee states:

> (a) "In these circumstances, it would be *unnatural* for Royal to make this matter a subject of separate, oral understanding . . ."
>
> (b) "Further, it would be *unnatural* for Royal to leave this as a matter for separate, oral understanding in view of the unwavering view taken by the Pollack Paper negotiations . . ."
>
> (c) "Faced with that attitude, Royal's *obvious protection* would be to insist that the alleged condition be explicitly in the writing . . ."

The italicized words in the preceding quotation represent value judgments which the trier of fact could properly make only after it had heard all of the evidence. It should not attempt to make such subjective determinations on summary judgment.

In attempting to overcome Mastersen, counsel are consistent in their language. On page 16, they state:

> (a) "In *Mastersen,* it was determined that an oral contemporaneous agreement was on a subject on which the written agreement was silent and that it was *natural* for the parties to make the agreement separate from writing.
>
> (b) Referring to *American Industrial Sales Corp. v. Airscope, Inc.,* 44 Cal. 2d 393, 282 P. 2d 504:
>
> ". . . the Court expressly affirmed those tests for invoking the exception, and held that the oral agreement . . . was a *natural* subject of oral, separate, contemporaneous understanding."

Perhaps all of what counsel say is true as a *matter of fact,* but that can be determined only after all of the evidence is in. California law on the question of whether the parol evidence rule prohibits testimony of an alleged contemporaneous agreement requires that the oral agreement at least be considered. The District Court's decision (which are its findings of fact and conclusions of law) states: "It does not appear to this Court that parties similarly situated would make a price fixing agreement a separate agreement." St. Regis handles this in its only footnote which appears on page 15 of its brief. Appellee states: "It is a conclusion that must be drawn from the uncontroverted words of the document and *Royal's own testimony as to the circumstances of its execution.*"

On summary judgment, the question is not what conclusion "must" be drawn. Rather, it is whether that is the *only* conclusion that can possibly be drawn from the evidence. Mr. Johnson, Royal's president, testified about this phase of the negotiations on pages 37-40 of his deposition. His testimony was to the effect that Royal insisted upon a price fixing agreement, otherwise ". . . we simply can't reach an agreement." St. Regis was willing to agree to price fixing but one of its counsel, Mr. Ganey, ". . . would not, absolutely, let them write it in the agreement." Accordingly, if Mr. Johnson's testimony be accepted as true, as it must on summary judgment, the *only* way the parties could enter into the licensing agreement was if there was a contemporaneous, oral price fixing agreement. Hence, the statement of the Court referred to above was clearly not the only inference that could be drawn from the evidence. Indeed, in the absence of any contrary evidence, the District Court's finding of fact is not supported by the evidence.

Under its discussion of the parol evidence rule, St. Regis has thrown in the point that the alleged termination of the agreement by Royal was ineffective because a breach of the oral price fixing agreement was not specified in the license agreement. This proposition is of no consequence whatsoever on summary judgment. Appellee concedes: "At best, Royal's remedy would be one at law for damages." That would be better than being thrown out of court together, which is what the District Court did to Royal. If the latter was entitled to any relief, irrespective of the validity of the termination notice, summary judgment for the appellee was erroneous.

II.
Did Plas-Ties Have to Join in the Termination Notice?

This point really has no bearing on the propriety of summary judgment against Royal. If there was a valid contemporaneous, oral price fixing agreement which was breached by St. Regis, Royal is entitled to some form of judicial relief. It should not be summarily refused a hearing. Whether Plas-Ties was required to join in a termination notice is beside the point.

However, whether the appellee is correct in its assertion can be determined only after the Court has heard all of the evidence and decided the facts. For example, St. Regis flatly states that "Plas-Ties owned only the know how" (Brief, p. 19). St. Regis cites Mr. Johnson's testimony as proof of this fact. On the other hand, the license agreement reads:

> "RECITALS
>
> ROYAL has designed and developed a product line of plastic tie strips and *is the owner of* United States Patent No. 2,767,113, pending patent applications *and know how* pertaining to the design, manufacture, and machines and equipment for making plastic tie strips and for closing containers with said tie strips.
>
> POLLOCK is desirous of manufacturing, using and selling the aforesaid product line and of acquiring a license under the patent rights *and know how owned by ROYAL* . . .

3. ROYAL shall make available to POLLOCK the *know how now owned by ROYAL* relating to said tie strips . . ." (Emphasis added).

It is suggested that the aforementioned statements, all agreed to by Royal, Plas-Ties, and St. Regis support an inference that Royal owned the know how. Accordingly, on summary judgment the District Court erred in finding that: "Actually, the second count makes clear that the 'know how' is the know how of Plas-Ties Corporation . . ." [R. p. 15, appeal 22717].

The Court should have drawn the inferences most favorable to appellant in considering the motion for summary judgment. If it had done so, it would have not become enmeshed in endeavoring to rule as a matter of law on the factual question of the nature of the relationship between Royal and its subsidiary Plas-Ties, which was a necessary prerequisite to the Court's passing upon the antitrust defense of appellee.

III.

The Oral Price Fixing Agreement Did Not Violate the Anti-Trust Laws.

St. Regis asserts that the rule of *General Electric* does not apply to a non-manufacturing patentee which has required a second licensee to set its prices in accordance with those of the first license. No authority is cited for this point. Rather the appellee analogizes the case at bar to *United States v. Line Material,* 333 U.S. 287. This reasoning is of dubious validity as an original proposition; furthermore, in the case at issue, it overlooks the fact that there was evidence in the record which would have supported a finding that Royal so controlled the affairs of Plas-Ties that it was Royal not Plas-Ties which set the price of the plastic tie strips. Therefore, the District Court erred on summary judgment in finding that: "Plaintiff in its complaint entitled Plas-Ties as a division of plaintiff when in fact Plas-Ties is a completely separate entity" [R. p. 15] and by implication that Plas-Ties set its own prices.

The evidence warranted a finding that Plas-Ties was not "a completely separate entity." Mr. Johnson testified that, although Plas-Ties was a subsidiary of Royal it was operated as a division thereof; that the corporate staff of Royal worked directly on Plas-Ties' affairs; and that Plas-Ties was "in actuality a part of Royal Industries, though it has the name 'subsidiary'" [Johnson's Dep. p. 99]. As a matter of fact, Royal's divisions and subsidiaries were operated on an identical basis by Royal [Johnson's Dep. pp. 112-113]. Johnson testified:

> "In these operations we have either divisional general managers or divisional presidents who are day-to-day men on the scene, but our corporate staff, myself, our comptroller, our vice president, spend a great deal of time in the divisions, working directly with them."

This evidence of Royal's total control over and direction of Plas-Ties' affairs is such that the trier of fact could conclude that Royal set Plas-Ties' prices. Indeed, when the first breach by St. Regis of the price fixing agreement was brought to the attention of Mr. Johnson he wrote to the President of the Pollock division of St. Regis on October 26, 1966, and said:

> "We find, however, that in spite of our admonishments of your pricing action an acquiescence on our requests, you have continued to price *our* product below the price which you have agreed to main-

> tain, and below the price we find can be profitable to *our* company." (Emphasis added). [Johnson's Dep. Ex. 21].

Moreover, St. Regis in its letter of January 24, 1967 [Johnson's Dep. Ex. 22] recognized that the price pattern was Royal's, not Plas-Ties.' The author write:

> "As stated in Mr. Lacy's letter to Mr. Johnson of December 2, 1966, St. Regis denies the making of any agreement to adhere to prices fixed *by Royal.*
>
> "If Royal had expected St. Regis to follow *its* prices, it is hard to understand why they never advised St. Regis that price revisions were being made *by Royal* . . ." (Emphasis added).

Quite clearly the parties to the contract recognized that the prices were set by Royal. Plas-Ties is never mentioned. Of at least, such an inference is permissible from the evidence. Plas-Ties paid no royalty to Royal for use of the patent [Johnson's Dep. p. 8]. It is repetitive to be sure, but the law on summary judgment is not what inferences should be drawn but what could be drawn from the evidence. Possible inferences include the deduction that Plas-Ties was not a "completely separate entity from Royal" and/or that, irrespective of the relationship between Royal and Plas-Ties, Royal set the prices to be charged by Plas-Ties for the plastic tie strips.

Therefore, the Court was in error in determining, *as a matter of law,* that Plast-Ties was a separate entity from Royal. Since the facts have supported a contrary inference, it necessarily follows that the alleged contemporaneous oral price fixing agreement would have been proper under the *General Electric* doctrine.

Even if the finding of the District Court that Plas-Ties was an entirely separate entity from Royal is deemed to be the only permissible inference from the evidence, the District Court is in error in holding that such a finding compels the conclusion that the alleged price fixing agreement violated the anti-trust laws. The reasoning of the District Court is based upon the assumption that the right of a patentee to protect his monopoly is limited to requiring a licensee to fix its prices in accordance with those of the patentee. This means that the price fixing protection afforded a patentee would be available only to those patentees who manufacture the patented item and that a patentee who has chosen to market his product through licensees would never be legally permitted to compel a second licensee to fix its prices in accordance with those charged by a first licensee. The Appellee makes this assertion without the benefit of supporting authority. As far as the appellant can determine, this fact situation has never been passed upon by any court in this Circuit.

On the other hand, the United States District Court in Missouri in *Ronson Patents Corp. et al. v. Sparklets Devices, Inc. et al.* (USDA-Mo. 1953) 112 F. Supp. 676, involved a factual situation quite similar to those in the case at bar.

> "The plaintiff Ronson held the patents in suit assigned to it by Art Metal under which Art Metal manufactured the patented articles. The plaintiff Ronson did not manufacture but was a subsidiary of the manufacturer, Art Metal. The defendants in the Ronson situation attempted to show the illegal control of the marketplace by reference to an agreement between Ronson and one Evans (not

a party to the suit) based on a license agreement including a minimum price-fixing provision. The defendant argued that the agreements fixing prices were illegal since they tended to create a monopoly in the plaintiff Ronson. On page 686 the court disposed of this contention as follows:

> '. . . There is no substantial evidence that by the agreements Art Metal and Evans divided up the market, to any competitor's damage. Art Metal had a large market prior to the agreements by virtue of the character of its product and patent. Art Metal licensed Evans to manufacture and sell under its patent. This Art Metal had a legal right to do. As to plaintiffs' right to fix the selling price of the patented article under the license, we are bound by the General Electric case. *United States v. General Electric Co.,* 272 U.S. 476, 47 S. Ct. 192, 71 L. Ed. 362.' "

General Electric gives a patentee the right to require its licensees to comply with any price structure the patentee feels is best suited to effect the best exploitation of its product. *General Electric* does not in any way limit the standards by which the patentee determines its prices. Appellant knows of no reason why a non-manufacturing patentee cannot delegate the responsibility of pricing to a primary licensee and insist that, if any third party wishes to manufacture the patented item under a license, it must follow the prices of the first licensee. This is an original proposition in this Circuit. None of the cases cited by the appellee are persuasive authority to the effect that it is only a manufacturing patentee who may fix prices under *General*

Electric. Yet, that is a necessary limitation of the *General Electric* rule that the decision of the District Court imposes upon that doctrine.

IV.

The Authority of the Appellee's Negotiators.

The appellee beats this point around by conceding that it was "not material to the grounds for summary judgment," but then discusses at some length the fact that the District Court drew the only possible inference from the evidence that the Pollock negotiators "did not have the authority to enter into a binding agreement for St. Regis" (Appellee's Br. p. 36). The ultimate wisdom of this deduction is supposedly cemented by the appellee's reference to what is "natural" for a manufacturer. (It is difficult to imagine any concept that more emphatically involves a determination of fact than to praise a trier of fact for having figured out what is "natural".)

At the very least, the authority of the Pollock negotiators was ambiguous. Appellee states that everyone knew that the license agreement had to be signed by a St. Regis official. On the other hand, the Pollock negotiators assured Royal that the execution of the agreement by the St. Regis people in New York was a mere formality [Johnson's Dep. p. 100]. What is even more astonishing, if the lack of authority of the lackeys from the Pollock Paper division of St. Regis be assumed, is the fact that they had the authority to, and did in fact, give Royal $20,000.00 down before the license agreement was formally signed in order to be exposed to Royal's know how [Johnson's Dep. pp. 91-92]. To say the negotiators had no authority to make a deal without "final review and approval" from New York (which, incidentally, ratified the agreement in the middle of May 1963 as of the first day of May 1963) and to admit that they had the authority to give Royal $20,000 in order to get things moving along is to speak with a forked tongue in stating that there was only one possible inference from the evidence.

The nature and extent of the authority of the Pollock people and whether St. Regis is estopped to question their authority is a question of fact which properly should have been decided in the light of all of the evidence. In view of the fact that one *possible* inference was that the Pollock people had full authority to bind St. Regis notwithstanding the formality of a signature in New York, the District Court erred in finding *as a matter of law* that approval of a corporate officer "would be required."

Conclusion.

The posture of the parties before the Court is aptly demonstrated by the briefs. Appellee has discussed with wisdom and logic the reasoning of the District Court and concludes that the Court sagely determined that which was "natural" and that which was "unnatural." It has carefully analyzed the reasoning of the District Court and found to be eminently satisfactory.

On the other hand, the appellant has not questioned the soundness of the deductions made by the District Court; rather, it has endeavored to demonstrate to this Court that, irrespective of the logic of the District Court in reaching the conclusions it did, other contrary inferences were at least *possible* from the evidence. To the extent that it has succeeded summary judgment was improperly granted by the District Court.

The judgment should be reversed in order that the Court might hear all of the evidence before making determinations of fact.

Respectfully submitted,

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and

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